

STATEMENT OF SENATOR JOHN McCAIN
CHAIRMAN, SENATE COMMITTEE ON
COMMERCE, SCIENCE, AND TRANSPORTATION
FULL COMMITTEE HEARING
ON PROPOSED UNITED-US AIRWAYS MERGER
JUNE 21, 2000

- C First, I want to thank our witnesses for testifying today on the proposed merger of United Airlines and US Airways. It is no secret that I am extremely skeptical of the proposal the carriers have laid before us. I look forward to a thorough discussion of the consumer benefits, as well as detriments that could result from the deal.
- C A combined United Airlines and US Airways would be twice as big as its next largest competitor, American Airlines. Its market power would be unprecedented. On the one hand, I would like to think that the merger would shake things up in the industry enough to see American and Delta, for instance, cut fares as they compete for their lives. On the other hand, I am realistic, or perhaps cynical enough to conclude that if the nation's biggest airline is allowed to acquire another major carrier, the rest of the airlines are sure to fall in line with their own merger transactions.
- C Consolidation in the industry does not bode well for new entry, which is key to a competitive airline environment. Already most successful, recent new entrant carriers acknowledge that they will not enter the majors' hub markets because they cannot survive in a head-to-head battle. This perception is our reality. Additional consolidation would only make it worse.
- C The prospects of this merger, as well as further consolidation, are worrisome enough that even an established carrier like Southwest Airlines is concerned that a mega carrier or carriers would have deep enough pockets to drive them into the ground. Southwest, of course, is one clear success story of airline deregulation. The Department of Transportation has documented that Southwest Airlines alone is responsible for many billion dollars of consumer savings. A question we must ask is whether we can continue to depend on Southwest's ability to discipline prices if the deck is shuffled in their competitors' favor.
- C I want the record to reflect that I have made no final decision on whether this merger should proceed and in fact have serious concerns as to whether it is indeed in the public's best interest.
- C Statistics demonstrate the merger would likely result in at least seven hubs where a combined United-US Airways airline would have a dominant position in terms of passenger share. United

would be a virtual behemoth in the east. Government restrictions such as slot controls and perimeter rules would only enhance and protect United's superior position on the east coast.

- C Airport restrictions, particularly on the east coast, represent an area where Congress and the Department of Transportation must take an active, pro-competitive stance. We have made strides at New York's LaGuardia and Kennedy airports, for instance, but what good is it to loosen slot restrictions if new competitors do not have access to publicly funded gates?
- C I turn now to the slot restrictions and the perimeter rule at Reagan National. They must go away if we really expect to see competition at Reagan National. At the very least, the parties here today who are asking us not to stand in the way of the marketplace cannot continue to stand in the way of our efforts to let market forces rule elsewhere.
- C The "father of deregulation," Professor Alfred Kahn, recently sent me a letter outlining his preliminary concerns with the proposed United-US Airways merger, which I would like to submit for the record. He urges the government to focus on a few areas -- overlapping routes between United and US Airways, the continued ability of the potential for competition to discipline prices, and the likelihood and effects of additional consolidation downstream.
- C I want to highlight another point that Professor Kahn makes. He states that United's main justification for the merger is the need for a hub in the northeast. Why then doesn't United create one, rather than following the path of "least competitive resistance" by trying to acquire one of its competitors' hubs? I know that is the vision of airline deregulation we all shared.
- C Senator Hollings?